



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 5/24/2002

GAIN Report #VM2007

Vietnam

Coffee

Annual

2002

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Report Highlights: Vietnam's coffee sector is suffering through a dismal period. After hitting record production levels last years, low international prices have caused a reduction in crop area and production. Although coffee prices recovered in the second quarter of the 2001/2002 marketing year, they are still below the estimated break-even costs. Vietnam's coffee exports have been relatively stagnant because of tight supplies. Coffee production in 2002/03 is forecast to drop even further.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Hanoi [VM1], VM

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PRODUCTION

Post estimates Vietnam's marketing year 2001/02 (Oct 2001-Sept 2002) coffee production at 735 thousand metric ton (TMT) or (12,250 thousand bags), a decrease of 20% compared with the record coffee production in the 2000/01 crop (920 TMT) because of a reduction in crop area and yield. The area reduction occurred mainly in key robusta producing areas like the Tay Nguyen (Central Highlands) provinces, where some low yielding coffee trees were chopped down. Yields dropped due to drought and low input use (less investment in irrigation, pruning, and fertilization). Many Central Highland areas have suffered from a prolonged drought from December 2001 until May 2002.

In Dac Lac province, home of more than 60% of Vietnam coffee, the crop yield was estimated to decline by 15% and the 2001/2002 crop area decreased by 7,000-8,000 hectares. During a recent visit to the province, Post saw some coffee areas being replaced by cashew trees inter-cropped with cassava plants. Cotton and corn are also considered (by the regional government officials) as good crops to replace coffee. According to local people, coffee production may be even worse in the 2002/03 coffee crop as coffee has been impacted by drought and abandoned for three consecutive years. The province authorities are trying to encourage farmers to cut an additional 70 thousand hectare (THA) of coffee trees by 2005. However, the process is slow as many farmers want to keep their coffee trees -- hoping that prices will eventually improve. The provincial government strictly bans planting new robusta coffee trees by measures like land use certificates and bank loan policies.

In Lam Dong province, where the coffee area (about 140 THA) is the second largest coffee area in Vietnam, there was about 20 THA of coffee chopped down. The 2001/2002 crop yield was estimated to have dropped by 10-15% compared with 2000/01 coffee crop due to dry conditions and low farmer inputs.

According to coffee observers, 2002/2003 coffee production will decline even further as coffee trees are exhausted because of low input use and less irrigation.. Post estimates Vietnam's coffee area in 2002/03 crop will go down to about 520 THA, with production at 630 TMT (10,500 thousand bags) -- as the average crop yield is estimated to drop by about 12% compared with the 2001/02 crop yield (see table 1). Post also revises Vietnam's 2000/01 coffee production to 920 TMT (or 15,333 thousand bags). This increase resulted from higher harvested coffee areas (450 THA) released by Ministry of Agricultural and Rural Development (MARD) (see Table 1).

Arabica Coffee.

Total arabica coffee area is estimated at 20 THA of which 15 THA is in Northern provinces and remaining areas are scattering in the other regions including in Tay Nguyen Central High Land. About 50% of the arabica coffee area is harvested (the rest is newly planted). Arabica coffee production is estimated at 10-15 TMT. Coffee traders complain about the low quality of the arabica coffee. They claim that only 70% of the arabica coffee is good enough for export. A lack of modern coffee processing facilities is blamed for the poor arabica quality.

Arabica coffee area in Northern provinces shrinking.

According to a recent survey, the arabica area in the northern provinces is falling, despite the Government's program to develop 40,000 HA of Arabica. The arabica area in the northern provinces (such as Ha Giang and Tuyen Quang) has fallen from 22,136 HA (recorded in 2000) to about 15,292 HA (as of September 2001). Reasons for the drop include poor site selection, lack of coffee knowledge, and uncertain Government support. Despite this set-back, the Government continues on.

Arabica coffee area expanded by 24 THA by 2004.

According to the Ministry of Agricultural and Rural Development (MARD), Vietnamese farmers (with Government encouragement) will plant about another 24,000 HA of Arabica coffee. The 2004 goal is to have total Arabica coffee area at 40,500 HA of Arabica coffee by 2004. To reach that goal, Vietnamese farmers will have to annually plant about 8,000 to 9,000 hectares of arabica trees. In addition to the northern arabica areas, MARD is expecting some Tay Nguyen (particularly Lam Dong province) to switch from robusta to arabica. Traders (and other observers) are adopting a 'show-me' approach.

Table 1: Vietnam Coffee Production, Supply and Demand
(Marketing year: October/ September; TMT)

	1999/00		2000/01		2001/02		2002/03
	Old	Revised	Old	Revised	Old	Revised	Estimated
Sown Area (THA)	370	460	560	560	550	540	520
Area Harvested (THA)	310	360	415	450	420	470	480
Beginning Stock	9	62	15	15	10	30	57
Production (green bean)	480	660	900	920	800	735	630
Total Import	0	0	0	0	0	0	0
Jan-Dec Import	0	0	0	0	0	0	0
Jan-Dec Import from U.S	0	0	0	0	0	0	0
TOTAL SUPPLY	489	722	915	935	810	765	687
TOTAL EXPORT	450	686	880	880	750	670	600
Jan-Dec Export	450	686	880	880	750	670	600
TOTAL Dom. Consumption	21	21	25	25	35	38	39
Ending Stock	18	15	10	30	25	57	48
TOTAL DISTRIBUTION	489	722	915	935	810	765	687

Source: Vicofa, MARD and FAS/VN

PRICES

Exchange rate: Vietnam Dong (VND) 15,250 equal to U.S. \$1.00 as of May 24, 2002

Local price.

Local coffee prices have recovered to VND 8,000-9,000/kg in March 2002 from VND 4,800/kg in February due to a rise in export prices. However, the international and domestic price jumps have caused many coffee middlemen to break contracts, re-negotiate deals, and think about switching to other commodities.

In April 2002, local coffee prices floated down to VND 6,500-7,000/kg. As of the middle of May, coffee prices in key coffee producing provinces such as Dac Lak, Lam Dong and Dong Nai are ranging from VND 6,600-7,000/kg (see table 2). However, the price is still below the estimated production costs of roughly VND 8,000-9,000/kg.

Export price.

Vietnam's coffee export price has jumped (recovered or soared beyond belief depending on one's marketing position) since February, 2002. However, it fluctuated sharply in March when it increased to \$590 and then \$620 and dropped to \$550/MT (FOB basis). The export price continued to decline to \$490-500/MT in April and May.

Table 2: Vietnam Coffee Prices (January-May, 2002)

	January	February	Early March	Middle March	April	May
Export price (USD/MT)						
Ho Chi Minh city (FOB)	305-310	300-340	390-410	590-620-550	490-510	480-490
Domestic price (VND/kg)						
Dac Lac province	4200-4400	4800	5650	8200-7200	6750	6800
Dong Nai province	4200	4400	5800	8000-9000	7200	6900
Lam Dong province	4200	4500	6000	7000	7000	7100

Source: Ministry of Agricultural and Rural Development (MARD)

Table 3 presents comparison of Vietnam average monthly export price of 2000/01 and 2001/02 coffee crops (October-April period).

Table 3 : Vietnam Coffee Average Monthly Export Price

Duration	2000/01 crop	2001/02 crop	Change(%)
October	530	332	(37)
November	495	316	(36)
December	438	319	(27)
January	439	329	(25)
February	453	321	(29)
March	454	355	(22)

April	430	397	(8)
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Source: Vietnam Coffee and Cacao Association (Vicofa)

Coffee processing and domestic consumption.

Vietnam's coffee processing industry is still under-developed. In key coffee growing areas (Tay Nguyen highlands), there are several private-sector and state-owned enterprises (SOE's) who roast coffee manually and produce ground coffee mainly for domestic use. Coffee processing enterprises are trying to market their products and to develop coffee distributing outlets in order to enlarge the domestic market (which generally prefers green tea). The Trung Nguyen Company (the Vietnamese equivalent to the U.S. Starbucks chain) has grown to more than 300 outlets in Vietnam including franchised and company-owned stores. Everyday, the company supplies about 4 metric tons of coffee to the domestic market.

There are two coffee processing factories -- Bien Hoa Coffee Factory (under the management of Vietnam Coffee Cooperation (Vinacafe)) and Nestle Thailand -- which can produce instant coffee. However, the capacity is small, only several thousand metric tons per year. Instant coffee products from the two factories is sold in domestic and overseas markets, including China, Taiwan, various Eastern European countries, and the United States.

Vietnam coffee domestic consumption is increasing but at low level. Annual domestic coffee consumption is estimated at 35-40 TMT. Vietnam's younger generations are adapting the coffee habit -- moving away from the Asian tea drinking tradition. The coffee factories are active in enlarging the domestic markets by diversifying and improving the quality of coffee products -- including organic coffee and gourmet coffee. Production of canned liquid coffee is under consideration.

TRADE

In the first 7 months of the 2001/02 coffee crop, Vietnam exported 467 TMT of coffee, a decrease of 18% compared with the same period last year. The export value was \$155 million, 40% below the equivalent period last crop year (see table 4).

Table 4: Vietnam Coffee Export in the first 7 months of 2001/02 Crop (Oct.01-Apr.02)

Duration	Volume (MT)	Value (USD)	Aver. price (USD/MT)
October 2001	44,027	14,602,317	332
November	61,734	19,532,892	316
December	87,772	28,020,025	319
January 2002	94,415	31,041,368	329
February	72,327	23,182,154	321
March	72,280	25,686,798	355
April	34,940	13,858,692	397
TOTAL	467,495	155,924,246	334

Source: Vicofa

Vietnam's coffee exports have been stagnant since March 2002 because of tight coffee supplies. Some coffee traders in Tay Nguyen highland were quoted as saying that, it is hard for them to buy coffee for their shipments. In a recent field trip to the region, Post found that most small coffee growers had to sell all their coffee as they needed money for food and for agricultural activities. However, supplies of unsold coffee were being maintained by coffee speculators as they waited for higher prices. As of the end of April, coffee traders estimated Vietnam's unsold coffee stocks at 150-300 TMT. The traders also predicted that Vietnam will export about 35-40 TMT per month in the last months of the 2001/02 coffee crop. Coffee traders are reluctant to sign any new export contracts with big volume as they are worried about the coffee supply in the country. Post estimates Vietnam 2001/02 coffee export at 670 TMT (or 11,667 thousand bags) (see table 1 and PS&D table).

Furthermore, traders claim that foreign coffee buyers are reluctant to sign contracts to purchase Vietnamese coffee from the new coffee harvest until they know more about the crop production from Brazil and Indonesia.

Post estimates Vietnam coffee exports in MY-2002/03 at 600 TMT (10,000 thousand bags) resulting mostly from lower coffee production in the country (see PS&D table).

Table 5: Vietnam Coffee PS&D table

PSD Table						
Country	Vietnam					
Commodity	Coffee, Green		(1000 HA)(MILLION TREES)(1000 60 KG BAGS)			
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	560	560	550	540	520	520
Area Harvested	415	450	420	470	480	480
Bearing Trees	519	562	525	587	600	600
Non-Bearing Trees	181	138	163	88	50	50
TOTAL Tree Population	700	700	688	675	650	650
Beginning Stocks	260	260	167	509	959	959
Arabica Production	117	117	167	166	250	250
Robusta Production	14,883	15,216	13,167	12,084	10,250	10,250
Other Production	0	0	0	0	0	0
TOTAL Production	15,000	15,333	13,334	12,250	10,500	10,500
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	15,260	15,593	13,501	12,759	11,459	11,459
Bean Exports	14,667	14,667	12,500	11,167	10,000	10,000

Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	14,667	14,667	12,500	11,167	10,000	10,000
Rst,Ground Dom. Consum	417	417	583	633	650	650
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	417	417	583	633	650	650
Ending Stocks	167	509	418	959	809	809
TOTAL DISTRIBUTION	15,251	15,593	13,501	12,759	11,459	11,459

POLICY

Vietnam approved the International Coffee Agreement of 2001.

On March 19, 2002 a Deputy Director of the Government Office signed Decision No. 1341/VPCP-QHQT to approve the International Coffee Agreement of 2001 that Vietnam signed in October 2001. The Agreement came to effect in October, 2001 and will valid for 6 years.

Vietnam became a member of ICO in 1991. During a visit to Vietnam in February, the Executive Director of the International Coffee Organization (ICO) was delighted to welcome Vietnam to certify the agreement. He highly appreciated Vietnam's active and constructive role in the organization.

Vietnam introduced Vietnam Standards (TCVN) on coffee.

Under the support from the Government of Vietnam, in cooperation with Vietnam Directorate of Standards and Quality Control, MARD introduced a new Vietnam Standards on coffee (TCVN 4193-2001) that adapts international standards.

In 1986, Vietnam introduced the first standards on Coffee-Specifications (TCVN 4193-86) that was based on three key criteria including moisture of content, black/broken bean and foreign matter. To assist Vietnam coffee traders in coffee direct exports, it was revised to TCVN 4193-93 in 1993. In order to increase the effectiveness of Vietnam coffee sector in international markets, MARD has revised the TCVN 4193-93 to TCVN 4193-2001 that adapts international standards. The TCVN 4193-2001 was official published in November 2001. Coffee growers and exporters are encouraged to apply the new standards for better quality of export coffee.

Vietnam-Indonesia enhanced cooperation in coffee.

Vietnam and Indonesia have agreed in principle to cooperate in marketing and management of quality of coffee, according to Indonesia Association of Coffee Exporters (IAKI). Representatives of Asian leading coffee producing countries including Vietnam, Indonesia and India planned a meeting to discuss a cooperation plan in Hanoi in the late May 2002.

